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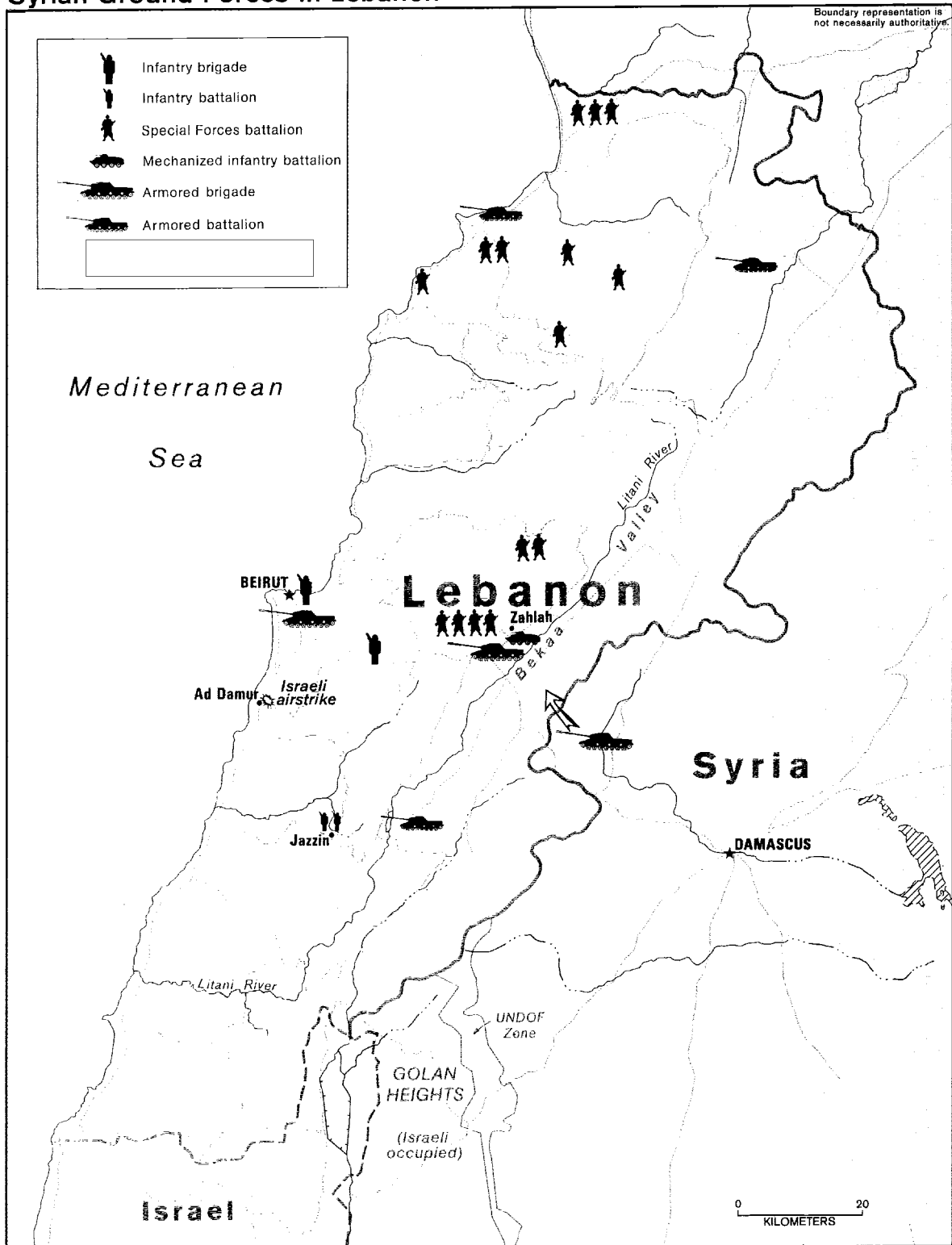
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Syrian Ground Forces in Lebanon



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LEBANON: Israeli Airstrike

The Israeli airstrike yesterday against Libyan-manned surface-to-air missile equipment protecting Palestinian positions near Ad Damur may lead to a new round of clashes in southern Lebanon.

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The Israelis claim they ordered the airstrike after mobile short-range SA-9 missiles were fired at reconnaissance aircraft, but it is more likely that the airstrike had been planned for some time.

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Tel Aviv has been increasingly alarmed by the flow of new arms--particularly from Libya--into Palestinian hands. The airstrike was the first such action since late April.

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PLO leader Arafat has sought to avoid clashes with Israel while US mediation efforts are under way between Israel and Syria, but he will be hard pressed to avoid responding to the airstrike--probably with rocket attacks into northern Israel. Arafat, moreover, cannot control Palestinian radicals from firing into Israel, which would almost certainly lead to additional Israeli military action.

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Prime Minister Begin portrayed the raid yesterday as part of Israel's continuing policy of taking the military initiative against the PLO. Tel Aviv has long argued that its military policy in southern Lebanon cannot be governed by other regional problems.

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Syrian-Lebanese Talks

Although the Syrian media denounced the airstrike, Damascus probably is willing to ignore the incident as long as it is not followed by repeated frequent airstrikes in the next few days. A series of Palestinian-Israeli clashes in the south, however, would undermine Syrian-Lebanese efforts to reduce tensions in central and northern Lebanon.

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Syrian Foreign Minister Khaddam and Lebanese Foreign Minister Butrus met yesterday reportedly to begin efforts to station Lebanese Army troops in Phalange-controlled

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Zahlah and lift the Syrian siege of the city. The talks apparently are aimed at setting the stage for a meeting next week of Khaddam and Butrus with the Saudi and Kuwaiti Foreign Ministers. [REDACTED]

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Syrian Military Activity

Syria earlier this week strengthened its forces in the southern Bekaa Valley by transferring an infantry battalion from Beirut to the Jazzin area. Additional elements of an armored division south of Damascus are being readied for a contingency move into Lebanon. Sources of the US defense attache in Damascus note, however, normal activity among the armored units north of Damascus that are Syria's main reinforcements for the Golan Heights. [REDACTED]

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ITALY: Implications of the Government's Collapse

The Italian Government's resignation earlier this week signals a protracted crisis during which major domestic and foreign policy decisions are likely to be deferred. [redacted]

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Outgoing Prime Minister Forlani--a Christian Democrat--is attempting to reconstitute his four-party coalition, but the pivotal Socialists are unlikely to cooperate unless a new government is led by Socialist chief Craxi. The Christian Democrats almost certainly will refuse to surrender the prime ministry, particularly since President Pertini is a Socialist. [redacted]

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Forlani probably will stay on as a caretaker through the local elections next month. The impasse could extend until the fall, however, when national elections might be called as the only remaining way to break the deadlock. If the two parties are still unable to come to terms based on the election results, one or the other might offer the Communists a direct role in the governing process in return for supporting its own aims. [redacted]

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The repercussions of the Masonic scandal will cripple any caretaker government. The suspension of Italy's security service chiefs may damage the antiterrorist campaign and prompt more terrorist attacks. [redacted]

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The failure of the parties to reconstruct the previous government's majority almost certainly would set back efforts to stabilize the economy. Inflationary pressures will probably mount, but no run on the lira is expected in the near future. [redacted]

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In the foreign policy area, a public announcement is unlikely about the site where ground-launched cruise missiles are to be deployed as part of NATO's TNF modernization program. Rome's support for the TNF program could be reopened if the Communists or Socialists view the issue as a vehicle to advance their political ambitions. [redacted]

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Finally, Forlani probably would adopt a low profile at the Ottawa summit in his capacity as a caretaker. He would be likely to use the unsettled domestic political situation as an excuse for avoiding firm commitments. In addition, Rome's ability to support US foreign policy initiatives would be muted so long as the political situation remains unsettled. [redacted]

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EASTERN EUROPE: Increasing Concern Over Poland

Growing anxiety in Eastern Europe over preparations for the Polish party congress in mid-July increases chances that a Warsaw Pact summit might be held before then to warn the Poles against sweeping liberalization. [redacted]

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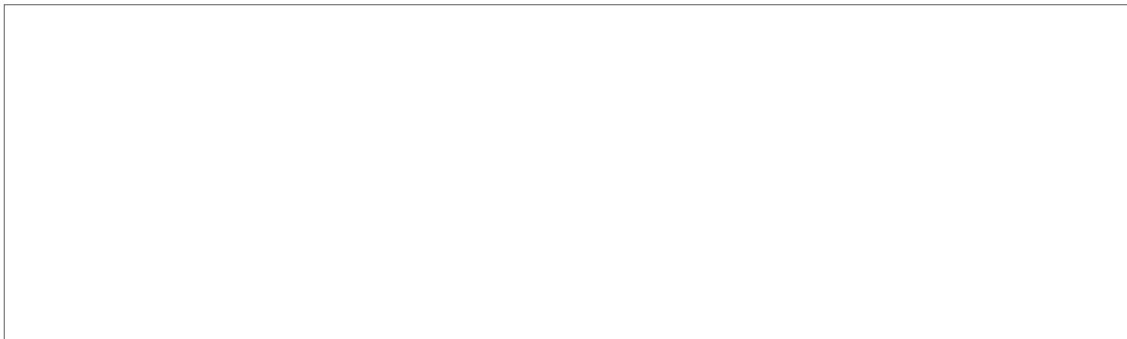
A high-level Czechoslovak Foreign Ministry official said last week that the movement for renewal within the Polish party is sending "shock waves" throughout the Communist world and that the Poles could easily go beyond the "critical point." He stated that serious consideration is being given to convening a summit soon to discuss events in Poland. [redacted]

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Hungary and Bulgaria, which have thus far treated Polish events in a low-key manner, also are showing signs of heightened concern. The Bulgarian party reportedly issued on Monday an internal letter deploring the election of large numbers of "extremists" as delegates to the party congress. Several Hungarian officials privately expressed concern recently over what they called a dramatic increase in crime and a breakdown in public order in Poland. [redacted]

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USSR - WEST GERMANY: Criticism of Schmidt's Stand on TNF

Moscow has attacked Chancellor Schmidt for his statements regarding TNF during his recent US visit and in his speech to the Bundestag on Tuesday. A *Pravda* editorial yesterday accused Schmidt of "following Washington along the path of aggravating the international situation," and noted that he and others in Bonn who support the NATO decision are not in accord with West German public opinion and elements in their own parties. The editorial also echoed a TASS article on Wednesday that drew a comparison between Bonn's willingness to accept US weapons on West German soil and Germany's attack on the USSR 40 years ago. *Pravda's* unusually harsh criticism reflects Moscow's displeasure at his reaffirmation of the US - West German accord on TNF deployments in West Germany, and makes clear the Soviets will continue to promote opposition to TNF among the West German public and left-wing members of Schmidt's Social Democratic Party. [redacted]

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[redacted] 25X1

SUDAN: Strike Threat

President Nimeiri reportedly is preparing to dissolve the powerful railway workers' union to head off the latest in a series of challenges to his government from labor groups. Union leaders had called for a five-day strike beginning tomorrow to protest the dismissal last month of workers with Communist ties. If the strike takes place, Nimeiri evidently intends to use the Army to keep the trains running and has ordered that gasoline and foodstuffs be stockpiled in Khartoum to avoid shortages. He also has ordered the arrest of Communists still employed by the railways. Nimeiri hopes that by moving decisively at this time he will be able to keep labor unrest from spreading. [redacted]

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[redacted]

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KAMPUCHEA: Prospects for International Conference

UN Secretary General Waldheim has tentatively scheduled the conference on Kampuchea for 13 July in New York, but has not yet obtained agreement on the invitation list or the agenda. Waldheim wants the widest possible participation, but the members of the Association of Southeast Asian Nations want to restrict the number attending.

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The ASEAN states recognize that the conference is unlikely to resolve the Kampuchean problem, but hope that it will be the beginning of a dialogue among the parties most concerned. Vietnam probably will not take part.

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SOUTH KOREA: Student Demonstrations

Security officials are nervous about the possibility of large student demonstrations today at universities in Seoul. In the latest of the sporadic rallies held this spring on the campus of Seoul National University, riot police dispersed some 2,000 students who had gathered on Thursday. The suicide of a student has inflamed antigovernment sentiment among the students. The cabinet, however, apparently has overruled recommendations by security officials that the universities be temporarily closed. The latest demonstration coincides with the opening in Seoul of the controversial government-sponsored national Youth Festival. President Chun and his advisers seem determined to keep schools open and to hold the festival to enhance Chun's standing with students.

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IRAQ-PORTUGAL: Large Naval Purchase

Iraq has purchased three antisubmarine frigates from the Portuguese Navy, [redacted] The \$120 million deal calls for transfer of the vessels immediately after familiarization training. Baghdad paid a substantial premium for fast delivery, but actual transfer may be delayed because the torpedo tubes are US-manufactured and may be subject to third-party transfer controls. [redacted]

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The sale expands Iraqi-Portuguese trade links; in April Iraq reportedly increased oil exports in exchange for Portuguese uranium ore. Until a few years ago, the USSR had supplied all of Iraq's naval combatants. Recently, however, Baghdad has negotiated contracts with Western shipbuilders. In 1980, the Iraqis purchased 11 Italian warships for \$1.9 million and last month was close to completing a deal with Finland for 48 small patrol boats. [redacted]

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SPECIAL ANALYSIS

USSR: Options in Dealing With Poland

Political turbulence in Poland is the Kremlin's most urgent and frustrating problem. It is urgent because the Soviets know that liberalization must be brought under control if they are to maintain hegemony in Eastern Europe. It is frustrating because Moscow has already used political and military pressure tactics short of armed invasion, without much success. Moscow, in effect, faces a no-win situation. The political, military, and economic costs of invading Poland would be enormous, but letting the situation continue to slip also carries major costs.

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It appears more likely that the liberalization trend will not be reversed and that Moscow eventually will move to bring the Poles to heel. What happens between now and the Polish party congress in mid-July will play a key role in Moscow's calculations. Moscow conceivably could tolerate a transformed Polish party, but only if party chief Kania gets the liberalization process under control and reassures the Soviets that the Poles will continue to honor their Warsaw Pact commitments.

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The Polish Party Congress

The process of liberalization has now spread to the Polish Communist Party itself, and that is new. The reforms already carried out come dangerously close to the kind of democratization that is anathema in the Soviet model of Communism.

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The Kremlin has urged Warsaw to postpone the congress, but the Poles insisted on going ahead. The Soviets have grave doubts that the Polish leaders are either willing or able to control the process. Moscow also realizes that, at this stage, it would be difficult--if not impossible--to replace Poland's leaders with stalwarts who could impose tougher policies.

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The only Soviet moves with real deterrent effect have involved the tangible threat of military intervention. The repeated use of this threat, however, can drain it of much of its potency. The Soviets may now reckon that if troops and tanks are readied the next time, they will have to be prepared to make good on the threat. [redacted]

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Disincentives

Outright military intervention would carry enormous risks. The Soviets fear that some units of the Polish Army might resist. The economic cost of the invasion itself, and of keeping the Polish economy afloat, would be considerable. [redacted]

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Moscow's attempt to block NATO's TNF modernization would founder. In addition, the USSR does not want its relations with the US to fall into a state of complete disrepair, and it does not want to bring about closer Sino-US ties. Moreover, Moscow does not want to lose access to Western credits, particularly the development of the gas pipeline from Siberia to Western Europe. [redacted]

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These factors are not lightly dismissed. Those Soviet leaders who probably place most store by them also attribute some importance to the following considerations:

--Since Poland, unlike Czechoslovakia, lacks a common border with NATO countries, the threat to Soviet security interests can more easily be contained.

--No high Polish official has cast doubt on Poland's loyalty to the Warsaw Pact.

--A number of hardliners have thus far kept their places in the Polish party leadership. [redacted]

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According to this argument, Poland has not yet reached the point of no return. It is thus prudent to give the Poles more time to sort themselves out. [redacted]

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This line of reasoning apparently has prevailed so far in Kremlin councils. The Kania leadership conceivably may be able to reassert enough control to reassure Moscow and gain more time. [redacted]

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Members of Solidarity recently have been willing to cooperate with government officials in calming particularly explosive situations. The Poles have long experience living in Moscow's shadow, and they will try to avoid giving the Soviets a pretext to intervene militarily. [REDACTED]

Narrowing Choices

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The high level of ambiguity does make it harder for the Soviets to sort out and weigh their options. Over the past 11 months, those options have gradually been reduced to either watching carefully and admonishing the Poles--but deferring military action--or invading with overwhelming military strength. [REDACTED]

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The continuing liberalization, which the party congress may well legitimize, could force the Soviets to make an unwelcome choice. They may conclude that failing to act decisively would mean forfeiting their last chance to preserve a Soviet-style Communist system in Poland, and that risk outweighs the probable costs of outright military intervention. [REDACTED]

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Since last summer the Soviets have improved the preparedness of many of the forces that could be used to intervene. To ready an intervention force large enough to ensure success, however, the Soviets would still have to mobilize reservists and make large-scale logistic preparations. This process would take about two weeks. [REDACTED]

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